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FISCAL IMPACT STATEMENT

LS 7045 | **NOTE PREPARED:** Jan 25, 2012
BILL NUMBER: HB 1123 | **BILL AMENDED:** Jan 17, 2012

SUBJECT: Thirteenth Checks.

FIRST AUTHOR: Rep. Burton | **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) The bill provides for a thirteenth check to certain members of the: (1) Indiana State Teachers' Retirement Fund (TRF); (2) Public Employees' Retirement Fund (PERF); (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Officers' Retirement Fund (C & E Fund); and (4) State Police 1987 Benefit System (State Police Fund).

Effective Date: July 1, 2012.

Explanation of State Expenditures: (Revised) This proposal provides a one-time 13th check to eligible PERF, TRF, and C & E fund members who retired or were disabled before December 2, 2011, and are entitled to a monthly benefit as of July 1, 2012. The bill also provides a one-time 13th check to members of the State Police fund who retired before July 2, 2011, and are eligible to receive a monthly benefit as of September 1, 2012. The 13th check is payable no later than October 1, 2012.

(Revised) *TRF 13th Check* - For the Pre-1996 Fund, there will be a one-time payment of $18.6 M in FY 2013 resulting in 45,421 retirees, beneficiaries, and survivors belonging to the Pre-1996 Fund receiving a one-time average payment of $410. Since the Pre-1996 Fund is funded on a pay-as-you-go basis, the annual cost is the increase in the amount of benefits paid each year. The Pre-1996 Fund is paid for through appropriations from the General Fund and payments from the Pension Stabilization Fund.

For the 1996 Fund, 2,554 retirees, beneficiaries, and survivors belonging to the 1996 Fund will receive an average one-time payment of $392. Total 13th check payments for members of the 1996 Fund will total $1 M. The 1996 Fund is prefunded with an actuarially calculated contribution equal to the benefit accrual cost for the year (the Plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. The 13th check would increase the unfunded accrued benefit liability of the 1996 Fund by $1 M.

The 1996 Fund is prefunded through employer contributions. Contribution rates have already been set for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. School corporations contribute a percentage of payroll, currently 7.50%.

PERF 13TH Check - One-time 13th check payments for all PERF retirees, beneficiaries, and survivors would total $23.7 M in FY 2013 resulting in 70,380 PERF members who would receive an average one-time payment of $336. The 13th check provision would increase the state's portion of PERF's unfunded accrued benefit liability by around $8.8 M. PERF is actuarially prefunded through employer contributions, similar to the TRF 1996 fund. Contribution rates have already been set for PERF for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. The state currently pays a percentage of payroll, currently 8.6%. The increase would be reflected in contribution rates beginning in FY 2014.

C & E Fund - One-time 13th check payments for C & E Fund retirees, beneficiaries, and survivors would total $61,000 in FY 2013 resulting in 176 C & E Fund members who would receive an average one-time payment of $347. The 13th check provision would increase the fund's unfunded accrued benefit liability by $61,000. The C & E Fund is actuarially prefunded through employer contributions. Contribution rates have already been set for the C & E Fund for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. The state currently pays a percentage of payroll, currently 20.75%.

(Revised) *State Police Fund* - One-time 13th check payments for State Police Fund employee beneficiaries would total $157,500 in FY 2013 resulting in 525 members receiving an average one-time payment of approximately $300. The 13th check provision would increase the fund's unfunded accrued benefit liability by $157,500. Annual State Police Fund costs would increase by $12,400. The funded status of the State Police Fund would decrease from 76.8% to 76.7%. Appropriations to the State Police pension fund are made equally from the state General Fund and from the state Motor Vehicle Highway Account.

	Beneficiaries	**Average 13th Check Amount**	**Total One-Time Payment**	**Increase in the Unfunded Accrued Liability**
TRF Pre-1996 Fund	45,421	$410	$18.6 M	$18.6 M
TRF 1996 Fund	2,554	$392	$1.0 M	$1.0 M
PERF (All)	70,380	$336	$23.7 M	$23.7 M
C & E Fund	176	$347	$61,000	$61,000
State Police Fund	525	$300	$157,500	$157,500

Explanation of State Revenues:

Explanation of Local Expenditures: *PERF* - The provision would increase local units' share of PERF's unfunded accrued benefit liability by around $15 M. Employer contribution rates have already been set for

PERF for FY 2013. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2014. Local units currently pay a percentage of payroll, currently 8.8%.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Those units with members in PERF and school corporations with members in TRF.

Information Sources: Greg Witter, INPRS, 317-232-3868; Brad Scully, Indiana State Police, 317-232-8348.

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Definitions:

Thirteenth Check - A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.